

# Consumer Alert

***Watch out for extended auto service warranties***



**Mike Kreidler  
Washington  
Insurance Commissioner**

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## **Background**

Chances are good that the buyer of a new car will be approached with the opportunity to purchase an extended warranty service contract for the vehicle.

Watch out! Many consumers who buy these warranties -- also called automobile service contracts -- discover later that they are very misleading and duplicate existing coverage. In addition, service contracts like this are not insurance coverage. By law they must be backed up by an insurance policy, and you do have the right to deal directly with the insurance company. However, that may be more difficult than it sounds.

There are other misleading aspects to service contracts: For example, if you bought a demo to save money, you may be surprised to learn that your extended service contract covered the 10,000 miles driven on it before you owned the car. The coverage clock starts ticking when the car is first driven, not when *you* first turn the key.

However, the most significant coverage is from the time the manufacturer's warranty expires to the expiration of the service contract. Almost all service contracts allow the dealer the option of using used or remanufactured parts, such as a revamped engine. Finally, watch out when the dealer says you are covered, bumper-to-bumper. Sure enough, the bumpers may be covered -- but not some of the moving parts in between.

Be sure to check the price you are offered. Service contracts are virtually a blank check for the dealer, who can simply tack on additional profit at the expense of a customer who appears to be well heeled. One rule of thumb is to regard any amount over \$500 as an unexplained addition to your cost. (See item on pricing below.)

Additional tips:

**READ YOUR FACTORY WARRANTY FIRST:** The extended service warranty actually may be unnecessary, because it excludes repairs or breakdowns covered by the factory warranty. A good factory warranty covers most breakdowns for the first year of service or longer. That may be enough protection for most consumers.

**ROUTINE MAINTENANCE:** Typically, oil changes, new tires, etc., are not covered by service contracts. But there is a Catch-22: This same routine maintenance may be the consumer's obligation under the contract, and future coverage may be invalidated if the consumer fails to get the oil changed at certain mileages. It also may be invalidated if you cannot produce the record to prove those actions were taken. Your claim may be denied even in cases where the routine maintenance was inconsequential and had nothing to do with the part of the car that actually failed.

**PRE-EXISTING PROBLEMS:** Many extended warranties exclude pre-existing problems. If you're purchasing a used car and getting the extended warranty to cover possible problems that the auto may already have, be sure you know what's really covered by the warranty or you may be out of luck when you go to file a claim.

**CONSUMER PROTECTION:** The dealer (or a third party administrator) selling the contract does not have to be licensed as an insurance agent, thus escaping much of the Insurance Commissioner's regulatory authority at point of sale. Department of Licensing, Dealer Division, handles complaints about the sale of the warranty product. The Insurance Commissioner's Office has authority over the insurance company and the product being sold. Under law, the seller's obligations under the service contracts must be guaranteed by an insurance company licensed in Washington. You may contact the insurance company directly under claims procedures that must be spelled out in the contract.

**KNOW WHAT KIND OF COMPANY IS BEHIND THE WARRANTY:** Make sure you verify that a licensed insurance company is backing the warranty. Some warranties are backed by Risk Retention Groups (RRGs). RRGs do not have to meet the same financial requirements as regular authorized insurance companies and the state's Guaranty Association would not pay your claims should the company become insolvent.

If you're unsure of whether or not an insurance company is behind the warranty contract, take the time to check the name through the OIC Consumer Hot Line at 1-800-562-6900

**THE PRICING STRUCTURE:** Do not hesitate to challenge the price of a service contract. The insurance component is usually around \$300 -- a onetime payment to the insurer. There will be an administrative fee, \$50 to \$100. Finally, there is dealer profit -- at least double the dealer's costs and usually much more, sometimes \$1,000 to \$2,000 more. View the costs for insurance and the administrative fee as the wholesale cost. The remainder may be considered retail mark-up and negotiable.

**READ THE FINE PRINT:** Get the contract -- don't accept excuses. It should be available at the time of the sale, and it should include the time and length of its coverage, what is covered, what is NOT covered, how you make a claim, and what you need to do to keep the service contract in effect (change oil, etc.). NOTE: By signing the application, you agree that you understand the contract. Don't sign unless you do understand.

**KEEP YOUR OWN RECORDS!** If you do purchase a service contract, remember that your claim may be invalidated on poor record keeping alone. Be scrupulous about making sure you perform all the routine maintenance that the warranty requires. But also be sure to keep your own records of each required maintenance task.

**USE THE FREE-LOOK PERIOD:** Remember that you have at least 10 days under state law to reconsider the purchase of a service contract, and some contracts offer additional time. If you want your money back in that period, you are entitled to a full refund. From 11 to 30 days, you will get most of your money back, minus a small cancellation fee. After 30 days, your refund for cancellation will be much smaller and prorated against the time remaining.